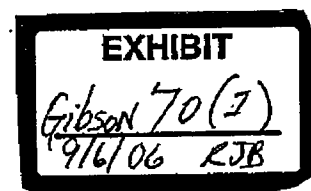


## EXHIBIT A



**STUDENT LOAN SERVICING LLC**  
Servicer

And

**SFC ACCEPTANCE II, LLC**  
Settlor

And

**FINOVA LOAN ADMINISTRATION INC.**  
Master Servicer

And

**NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION**  
Trustee

**POOLING AND SERVICING AGREEMENT**  
Dated as of April 19, 2000

**SFC GRANTOR TRUST, SERIES 2000-1**

counterparts, each of which counterpart shall be deemed to be an original, and all of which counterparts shall constitute but one and the same instrument.

**Section 11.3. Limitation on Rights of Certificateholders.** The death or incapacity of any Certificateholder shall not operate to terminate the Agreement or the Trust, or entitle such Certificateholder's legal representatives or heirs to claim an accounting or to take any action or commence any proceeding in any court for a partition or winding up of the Trust, or otherwise affect the rights, obligations, and liabilities of the parties to the Agreement or any of them.

No Certificateholder shall have any right to vote (except as provided in Section 11.1 hereof) or in any manner otherwise control the operation and management of the Trust, or the obligations of the parties to this Agreement, nor shall anything in this Agreement set forth, or contained in the terms of the Certificates, be construed so as to constitute the Certificateholders from time to time as partners or members of an association, nor shall any Certificateholder be under any liability to any third person by reason of any action taken pursuant to any provision of this Agreement.

No Certificateholder shall have any right by virtue or by availing itself or themselves of any provisions of this Agreement to institute any suit, action, or proceeding in equity or at law upon or under or with respect to this Agreement unless such Certificateholder previously shall have given to the Trustee a written notice of default and of the continuance thereof, as hereinbefore provided, and unless also the Majority Certificateholders shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee under this Agreement and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee, for 30 days after its receipt of such notice, request, and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding; no one or more Certificateholder shall have any right in any manner whatever by virtue or by availing itself or themselves of any provisions of this Agreement to affect, disturb, or prejudice the rights of any other Certificateholders, or to obtain or seek to obtain priority over or preference to any other such Certificateholders, or to enforce any right under this Agreement, except in the manner provided in the Agreement and for the equal, ratable, and common benefit of all Certificateholders. For the protection and enforcement of the provisions of this Section 11.3, each Certificateholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Anything herein to the contrary notwithstanding, if an MBIA Policy is in effect with respect to the Certificates and MBIA is not in default of its obligation to make payments thereunder, MBIA shall be deemed to be the owner of all Certificates then Outstanding for all purposes (including, without limitation, all approvals, consents, waivers, authorizations, directions, inspections and the institution of any action), provided that nothing in this paragraph shall impair the rights of the Certificateholders to receive all payments due under the Certificates, and MBIA shall have the exclusive right to exercise or direct the exercise of remedies on behalf of the owners of the Certificates in accordance with the terms of this Agreement following an Event of Default.

**Section 11.4. Governing Law.** This Agreement shall be construed in accordance with the laws of the State of Pennsylvania, and the obligations, rights, and remedies of the parties under this Agreement shall be determined in accordance with such laws except that the powers, obligations,

duties and rights of the Trustee shall be governed by the laws of the State of Minnesota and the federal law of the United States.

**Section 11.5. Notices.** All demands, notices, and communications under the Agreement shall be in writing, personally delivered or mailed by certified mail, return receipt requested, or overnight courier or facsimile transmission with original to follow and shall be deemed to have been duly given upon receipt (a) in the case of the Settlor, at 5 Radnor Corporate Center, Suite 501, 100 Matsonford Road, Radnor, Pennsylvania 19087, Attention: Andrew N. Yao, facsimile number (610) 995-2060; (b) in the case of the Servicer, at Christiana Executive Campus, 111 Continental Drive, Suite 408, Newark, DE 19713, Attention: Frank Martinez, facsimile number (302) 391-5343, (c) in the case of the Trustee, at the Corporate Trust Office, facsimile number (612)667-3464; (d) in the case of the Master Servicer, 2650 South Decker Lake Lane, 2nd Floor, Salt Lake City, UT 84119, facsimile number (801) 924-2190, and (e) in the case of the Rating Agencies, Moody's Investor Service, Inc., A.B.S. Monitoring Dept., 99 Church Street, New York, NY 10007, facsimile number (212) 553-4948, and Fitch IBCA, One State Street Plaza, 32<sup>nd</sup> Floor, New York, NY 10004, facsimile number (212) 514-9879. Any notice required or permitted to be mailed to a Certificateholder shall be given by first class mail, postage prepaid, overnight courier or facsimile transmission at the address of such Certificateholder as shown in the Certificate Register. Any notice so mailed within the time prescribed in this Agreement shall be conclusively presumed to have been duly given, whether or not the Certificateholder shall receive such notice.

**Section 11.6. Severability of Provisions.** If any one or more of the covenants, agreements, provisions, or terms of this Agreement shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions, or terms shall be deemed severable from the remaining covenants, agreements, provisions, or terms of this Agreement and shall in no way affect the validity or enforceability of the other provisions of this Agreement or of the Certificates or the rights of the Certificateholders thereof.

**Section 11.7. Assignment.** Notwithstanding anything to the contrary contained herein, except as provided in Sections 3.11 and 6.2 hereof, neither the Settlor nor the Servicer may transfer or assign all, or a portion of, its rights, obligations and duties under the Agreement unless the Trustee and the Majority Certificateholders consent thereto. Any transfer or assignment with respect to the Servicer of all of its rights, obligations and duties will not become effective until a successor Servicer has assumed the Servicer's rights, duties and obligations under the Agreement. In the event of a transfer or assignment, the Rating Agencies shall be provided with notice of such transfer or assignment.

**Section 11.8. Certificates Nonassessable and Fully Paid.** Certificateholders shall not be personally liable for obligations of the Trust. The interests represented by the Certificates shall be nonassessable for any losses or expenses of the Trust or for any reason whatsoever, and, upon authentication thereof by the Trustee pursuant to Section 5.3 hereof, Certificates shall be deemed fully paid.

**Section 11.9. Third Party Beneficiaries.** Except as otherwise specifically provided herein with respect to the Certificateholders, the parties to this Agreement hereby manifest their intent that no third party other than each Certificateholder, the Insurer and MBIA shall be deemed a third party

## **EXHIBIT B**

District Court for the District of Delaware

---

ROYAL INDEMNITY COMPANY

v.

PEPPER HAMILTON LLP, et al.

C.A. No. 05-165-JJF

---

MBIA INSURANCE CORPORATION, et al.

v.

ROYAL INDEMNITY COMPANY

C.A. No. 02-1294-JJF

---

Expert Report

of

Donna Lee Williams

**Purpose of this Report**

I have been engaged by counsel for Royal Indemnity Company ("Royal") to respond to the report of Constance Foster and offer an opinion concerning the application of section 909 of the Delaware Insurance Code to the credit risk policies issued by Royal to Student Finance Corporation ("SFC"), predominately insuring student loans made to students attending truck driving training schools. Specifically, I have been asked to opine on whether such loans are properly considered "1 subject of insurance" for purposes of 18 Delaware Code § 909.

**Background and Basis of Opinion**

From 1993 through 2005, I was the Insurance Commissioner for the State of Delaware. Prior to being elected Insurance Commissioner, I practiced law in the areas of insurance defense, regulation, licensing and compliance for 8 years in Delaware. I am currently employed at the AAA Mid-Atlantic. Headquartered in Delaware, the AAA Mid-Atlantic is the fifth largest club in a national federation known as the American Automobile Association. I am the director of government and industry affairs at the AAA Mid-Atlantic. My primary responsibility is directing legislative and regulatory affairs for our insurance group, including three proprietary insurance companies. My duties include monitoring and directing legislative and regulatory activities of the AAA Mid Atlantic in its six state territory.

I became a member of the National Association of Insurance Commissioners ("NAIC") in 1993. I was active in committee leadership for much of my tenure as Insurance Commissioner. I was a member of the NAIC executive committee for a total of eight years. I also served on the Financial Standards and Accreditation Committee ("FSAC") and was its chair in 2003. Among other things, the FSAC established and enforced the uniform standards for financial solvency oversight by state insurance departments over insurers.



As Insurance Commissioner, I was responsible for the solvency oversight of over 150 Delaware domestic insurance companies, including Royal. I was also responsible for regulating the activities of hundreds of insurers doing business in the state. My Curriculum Vitae is attached as exhibit A. A list of the materials I relied upon in forming my opinions is attached as exhibit B.

I have formed my opinions expressed in this report to a reasonable degree of professional certainty. I am being compensated at the rate of \$350/hour and \$400/hour (testimony) for my time. My compensation is not tied to or dependent upon the results obtained by Royal in these actions. I reserve the right to supplement this report.

### **Opinion**

I have reviewed George Bernstein's report and I concur with both the reasoning of his report and his conclusions. I agree that each of the student loans insured by Royal in this case represented a single risk for purposes of 18 Delaware Code § 909. Each loan insured by Royal here presented a unique risk. Based on my education and experience I find no reason to aggregate these risks.

Like Mr. Bernstein, at no time in my 12 years as Delaware Insurance Commissioner, including my participation in the NAIC committee concerning solvency oversight, have I ever heard it suggested that the risk of "economic downturn" be the basis for aggregating the sort of risk Royal insured here, or similar risks.

While I was the Delaware Insurance Commissioner, I conducted monthly meetings with the senior members of my financial solvency oversight team. The purpose of these monthly meetings was to review the schedule for triennial examinations, triennial examinations in progress, market conduct examinations (scheduled or in progress), and annual and quarterly

financial statements. In those meetings, we would discuss issues and problems, including any issues of concern discovered by the examiners in the field, related to the insurers we were regulating, primarily Delaware domestic insurance companies, such as Royal. We also discussed the quarterly and annual financial statements and other filings as may have been required under Delaware law, and any issues or concerns that would come to light as a result of the information contained in such filings, including, among other things, issues regarding aggregation of risk. At no time did any of the senior members of my team raise any concerns regarding Royal's concentration of risk in regards to SFC. If the policies at issue in this case were perceived as one risk, then that aggregation issue would have been raised with me; it never was.

July 27, 2007  
Date

Donna Lee Williams  
Donna Lee Williams

**EXHIBIT C**

Williams, Donna 8/27/2007 1:30:00 PM

1 IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE

2 MBIA INSURANCE CORPORATION :  
3 and WELLS FARGO BANK, :  
N.A. (f/k/a WELLS FARGO :  
4 BANK MINNESOTA N.A.) as :  
TRUSTEE OF SFC GRANTOR :  
5 TRUST, SERIES 2000-1, SFC :  
GRANTOR TRUST, SERIES :  
6 2000-2, SFC GRANTOR TRUST : C.A. NO.  
SERIES 2000-3, SFC GRANTOR : 02-1294-JJF  
7 TRUST, SERIES 2000-4, SFC :  
GRANTOR TRUST, SERIES 2001-1 :  
8 SFC GRANTOR TRUST, SERIES :  
2001-2, SFC OWNER TRUST :  
9 2001-1, AND SFC GRANTOR :  
TRUST, SERIES 2001-3, :  
10 Plaintiffs/Counterclaim :  
Defendants, :  
11 : TRACK (I) WITNESS :  
vs. : DONNA LEE WILLIAMS  
12 ROYAL INDEMNITY COMPANY, :  
Defendant/Counterclaim : DATE :  
13 Plaintiff. : AUGUST 27, 2007

---

14 ROYAL INDEMNITY COMPANY,  
Third-Party Plaintiff,  
15  
vs.  
16 ANDREW N. YAO, STUDENT LOAN  
SERVICING LLC, STUDENT LOAN  
17 ACCEPTANCE II LLC, STUDENT LOAN  
ACCEPTANCE III LLC, STUDENT LOAN  
18 ACCEPTANCE III LLC, STUDENT LOAN  
ACCEPTANCE V LLC, STUDENT LOAN  
19 ACCEPTANCE VII LLC, STUDENT LOAN  
ACCEPTANCE IX LLC, SFC FINANCIAL LLC  
20 I, SFC FINANCIAL LLC II, SFC  
FINANCIAL LLC VI, SFC FINANCIAL LLC  
21 VII,  
Third-Party Defendants.  
22

---

23 ROYAL INDEMNITY COMPANY,  
Counter-Claimant,  
24  
vs.  
25 MBIA BANK and WELLS FARGO BANK  
MINNESOTA, N.A.,  
Counter-Defendants.

1 Oral Deposition of  
2 DONNA LEE WILLIAMS was taken  
3 pursuant to notice at 500 Delaware  
4 Avenue, Wilmington, Delaware, on  
5 Monday, August 27, 2007, beginning  
6 at 1:30 p.m., before Jeanne  
7 Christian, Court Reporter-Notary  
8 Public, there being present.  
9

10 APPEARANCES:  
11 SONNENSCHN NATH & ROSENTHAL, LLP  
BY: STEVEN L. MEROUSE, ESQUIRE  
12 8000 Sears Tower  
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14 Representing Royal Indemnity Company  
15

16 SCHNADER HARRISON SEGAL & LEWIS, LLP  
BY: ELIZABETH AINSIE, ESQUIRE  
17 BY: DAVID PELLETIER, ESQUIRE  
1600 Market Street  
18 Philadelphia, Pennsylvania 19103  
Phone: (215) 751-2259  
19 Representing Pepper Hamilton, LLP  
20  
21  
22  
23  
24  
25

1 CHARLES A. STANZIALE, JR.,  
2 Chapter 7 Trustee of Student Finance  
Corporation,  
3 Plaintiff,  
4 vs. C.A. No. 04-1551-JJF  
5 PEPPER HAMILTON LLP, et al,  
Defendants.  
6

---

7 CHARLES A. STANZIALE, JR.,  
Chapter 7 Trustee of Student Finance  
Corporation,  
8 Plaintiff,  
9 vs. C.A. No. 05-72-JJF  
10 McGLADREY & PULLEN LLP  
and MICHAEL AQUINO,  
11 Defendants.  
12

---

13 ROYAL INDEMNITY COMPANY,  
Plaintiff,  
14  
vs. C.A. No. 05-165-JJF  
15  
16 PEPPER HAMILTON LLP,  
W. RODERICK GAGNE,  
17 FREED MAXICK & BATTAGLIA CPAs,  
McGLADREY & PULLEN LLP,  
and MICHAEL AQUINO,  
18 Defendants.  
19  
20  
21  
22  
23  
24  
25

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1 THE WITNESS: Persons with  
2 worse credit scores generally  
3 present a higher risk of default.

4 BY MS. AINSLIE:

5 Q. Under what kinds of  
6 circumstances would there be any  
7 aggregation of risk in credit  
8 enhancement insurance?

9 Again, I'm trying to --  
10 let me make it a little clearer.  
11 I'm trying to step back from this  
12 circumstance. I understand that  
13 your opinion is that they are not --  
14 the loans in this case are not  
15 aggregated, so as to make them one  
16 risk; is that right?

17 A. That's correct.

18 Q. Is there a circumstance that you  
19 can think of where they would be  
20 aggregated in the credit enhancement  
21 arena?

22 A. I don't know. I mean, I can't  
23 think of any off the top of my  
24 head.

25 Q. If something occurs to you later

Williams, Donna 8/27/2007 1:30:00 PM

103

105

1 THE WITNESS: No.  
 2 BY MS. AINSLIE:  
 3 Q. One of the -- going on to the  
 4 next paragraph of your opinion on  
 5 Page 2, you say that you have not  
 6 heard it suggested in the course of  
 7 your time as insurance commissioner  
 8 that the risk of economic downturn  
 9 might be the basis for aggregating  
 10 the sort of risk that Royal insured  
 11 here or similar risks.  
 12 Am I paraphrasing at least  
 13 that accurately?  
 14 A. I think so, yes.  
 15 Q. What sorts of risks have you  
 16 seen be the basis for aggregating  
 17 the sort of risk that Royal insured  
 18 here?  
 19 MR. MEROUSE: Objection,  
 20 form.  
 21 THE WITNESS: To the best  
 22 of my recollection, this issue --  
 23 the specific issue of the  
 24 aggregation of credit risk was never  
 25 brought to my attention.

1 A. That's correct, because  
 2 aggregation issues are very  
 3 infrequent.  
 4 Q. Now, the next paragraph, you  
 5 point to the fact that you had  
 6 monthly meetings with the senior  
 7 members of your financial solvency  
 8 oversight team? I take it, that's  
 9 BERG?  
 10 A. Yes.  
 11 Q. And you say that in those  
 12 meetings, we would discuss issues  
 13 and problems, including issues of  
 14 concern discovered by examiners in  
 15 the field, and that at no time did  
 16 any of the senior members of your  
 17 team raise any concerns concerning  
 18 Royal's concentration of risk in  
 19 regards to SFC?  
 20 A. That's true.  
 21 Q. These meetings were held 12  
 22 times a year?  
 23 MR. MEROUSE: I object to  
 24 form.  
 25 THE WITNESS: They were

104

1 BY MS. AINSLIE:  
 2 Q. So you have never heard it  
 3 suggested that the risk of economic  
 4 downturn be the basis, but you have  
 5 not heard any other risk being  
 6 suggested as the basis for  
 7 aggregating the sort of risk that  
 8 Royal insured here; is that correct?  
 9 A. Aggregation issues come up very  
 10 infrequently.  
 11 Q. I'm just asking what --  
 12 A. So the answer to that -- repeat  
 13 your question.  
 14 Q. I think you did answer it, but I  
 15 will try again, to be sure.  
 16 Am I correct in  
 17 understanding that you have not  
 18 heard the risk of economic downturn  
 19 suggested as the basis for  
 20 aggregating the sort of risk that  
 21 Royal insured here, but you have  
 22 likewise not heard any other risk be  
 23 suggested as the basis for  
 24 aggregating the sort of risk that  
 25 Royal insured here, either?

## EXHIBIT D

Foster, Constance 8/28/2007 10:00:00 AM

1

3

1 IN THE UNITED STATES DISTRICT COURT  
2 FOR THE DISTRICT OF DELAWARE  
3 ---  
4 MBIA INSURANCE :  
5 CORPORATION AND WELLS :  
6 FARGO BANK, N.A. (f/k/a :  
7 WELLS FARGO BANK :  
8 MINNESOTA N.A.) AS :  
9 TRUSTEE OF SFC GRANTOR :  
10 TRUST, SERIES 2000-1, SFC :  
11 GRANTOR TRUST, SERIES :  
12 2000-2, SFC GRANTOR :  
13 TRUST, SERIES 2000-3, SFC :  
14 GRANTOR TRUST, SERIES :  
15 2000-4, SFC GRANTOR :  
16 TRUST, SERIES 2001-1, SFC :  
17 GRANTOR TRUST, SERIES :  
18 2001-2, SFC OWNER TRUST :  
19 2001-1, AND SFC GRANTOR :  
20 TRUST, SERIES 2001-3, :  
21 Plaintiffs/Counterclaim :  
22 Defendants, :  
23 vs. :  
24 ROYAL INDEMNITY COMPANY, :  
25 Defendant/Counterclaim :C.A. NO.  
Plaintiff. :02-1294-JJF  
---  
ROYAL INDEMNITY COMPANY, :  
Third-Party Plaintiff, :  
vs. :  
ANDREW N. YAO, STUDENT :  
LOAN SERVICING LLC :  
STUDENT LOAN ACCEPTANCE II :  
LLC, STUDENT LOAN :  
ACCEPTANCE III LLC :  
STUDENT LOAN ACCEPTANCE :  
III LLC, STUDENT :  
LOAN ACCEPTANCE V LLC :  
STUDENT LOAN ACCEPTANCE :  
VIII LLC, STUDENT LOAN :  
ACCEPTANCE IX LLC, SFC :WITNESS:  
FINANCIAL LLC I, SFC :CONSTANCE B. FOSTER  
FINANCIAL LLC II, SFC :TRACK I  
FINANCIAL LLC VI, SFC :  
FINANCIAL LLC VII, :DATE:  
Third-Party Defendants :AUGUST 28th, 2007

1 Oral deposition of CONSTANCE  
2 B. FOSTER, Track I, taken pursuant to notice,  
3 at the Law Offices of Schnader, Harrison,  
4 Segal & Lewis, LLP., 1600 Market Street, Suite  
5 3600, Philadelphia, Pennsylvania 19103, on  
6 Tuesday, August 28th, 2007, beginning at  
7 approximately 10:00 a.m., before David Walsh,  
8 Registered Professional Reporter and Notary  
9 Public, there being present:  
10  
11 ---  
12

## APPEARANCES:

13  
14 SONNENSCHNEIN, NATH & ROSENTHAL,  
15 LLP.  
16 BY: STEVEN L. MEROUSE,  
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23 Company

24  
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Representing Pepper Hamilton,  
LLP and W. Roderick Gagne as  
Partner

2

4

1 ROYAL INDEMNITY COMPANY, :  
2 Counter-Claimant, :  
3 vs. :  
4 MBIA BANK AND WELLS FARGO :  
5 BANK MINNESOTA, N.A., :  
6 Counter-Defendants. :  
7 ---  
8 CHARLES A. STANZIALE, JR., :  
9 CHAPTER 7 TRUSTEE OF :  
10 STUDENT FINANCE :  
11 CORPORATION, :  
12 Plaintiff, :C.A. NO.  
13 :04-1551-JJF  
14 vs. :  
15 PEPPER HAMILTON LLP, :  
16 et al., :  
17 Defendants. :  
18 ---  
19 CHARLES A. STANZIALE, JR., :  
20 CHAPTER 7 TRUSTEE OF :  
21 STUDENT FINANCE :  
22 CORPORATION, :  
23 Plaintiff, :C.A. NO.  
24 :05-72-JJF  
25 vs. :  
McGLADREY & PULLEN LLP AND :  
MICHAEL AQUINO, :  
Defendants. :  
---  
ROYAL INDEMNITY COMPANY, :  
Plaintiff, :  
vs. :  
C.A. NO.  
PEPPER HAMILTON LLP, W. :05-165-JJF  
RODERICK GAGNE, FREED :  
MAXICK & BATTAGLIA CPAs, :  
McGLADREY & PULLEN LLP, :  
AND MICHAEL AQUINO, :  
Defendants. :  
23  
24  
25

## APPEARANCES CONTINUED:

1  
2  
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6 1585 Broadway  
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8 Phone: (212) 969-3221  
9 Representing MBIA Insurance  
10 Corporation and Wells Fargo Bank  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25



1 Q. Okay. I understand we have had some  
2 discussions today about exactly how to  
3 characterize the Royal policies.

4 So, setting that aside, are you aware in  
5 your experience as a regulatory lawyer or as a  
6 commissioner of the one risk rule ever being  
7 applied to credit risk policies where the  
8 aggregating factor used was the threat of  
9 economic downturn?

10 MS. AINSLIE: Objection.

11 THE WITNESS: I'm not  
12 aware -- and we looked, but I am not aware  
13 that this issue has come up. As the attorney  
14 general opinion notes, despite the fact that  
15 versions of these rules have been around for  
16 a long time, there's very little that's out  
17 there that assists in making these  
18 determinations. So, no, I'm not aware of any  
19 situation where it was applied specifically  
20 to a credit enhancement policy.

21 BY MR. MEROUSE:

22 Q. Okay. So, this is sort of an insurance  
23 issue of first impression, if you will?

24 A. I don't know if first impression is the  
25 issue of how you treat asset backed -- asset

## EXHIBIT E

1 UNITED STATES DISTRICT COURT

2 DISTRICT OF DELAWARE

3 ROYAL INDEMNITY COMPANY, )

4 Plaintiff, )

5 v. ) No. 05-165-JJF

6 PEPPER HAMILTON LLP, et al., )

7 Defendants. )

8 MBIA INSURANCE CORPORATION, et al., )

9 Plaintiffs, )

10 v. ) No. 02-1294-JJF

11 ROYAL INDEMNITY COMPANY, )

12 Defendant. )

13 -----

14

15 DEPOSITION OF TRACK I WITNESS: GEORGE K. BERNSTEIN

16 Wednesday, August 8, 2007

17 Washington, D.C.

18

19

20

21 Reported by: Cheryl A. Lord, RPR, CRR

22

1     downturn, and I've never seen an insurance department  
2     apply the concept of economic downturns to those lines  
3     any more than I've seen it applied to credit risk  
4     lines.

5             Q.    So the fact that you haven't seen -- well,  
6     have you seen insurance departments -- take the  
7     workers' comp example that you just gave us.

8             Have you seen insurance departments apply  
9     the 909 analysis to workers' comp one way or the  
10    other?

11            A.    No.

12            I'm trying to think of -- let me think that  
13    through.

14            The answer is, I have not seen it done for  
15    any line.

16            Q.    Okay.

17            MR. MEROUSE: Liz, we can stop when it  
18    makes sense?

19            We've been going almost an hour and a half,  
20    so whenever is a logical time.

21            MS. AINSLIE: Sure.

22            Let me just ask 1 or 2 more questions along

104

106

1 insureds is aggregated -- that company may go broke  
2 because it wrote bad business or a lot of bad  
3 business, but that's not an aggregation issue. I'm  
4 talking aggregation.

5 You want to talk underwriting, that's a  
6 totally different thing. You want to talk wisdom,  
7 that's a totally different thing.

8 But in terms of aggregation, you can't  
9 aggregate this until the statute says you have to  
10 aggregate it, and I've never seen a statute that says  
11 you have to aggregate it. I've never seen an  
12 insurance department that said you had to aggregate  
13 it.

14 And many companies writing credit risk  
15 insurance would be in violation of 909 if the Foster  
16 proposal were adopted.

17 BY MS. AINSLIE:

18 Q. Do you know, then, that Constance Foster --  
19 do you know her, by the way?

20 A. I'm sure I've met her.

21 Q. In what context?

22 A. What were her years in the department in

1 no other department has ever applied a statute like  
2 909, whether you're talking about prime risks or  
3 subprime risks.

4 Prime risks are also subject to economic  
5 downturns. They may not be as subject. Are you going  
6 to have the insurance departments evaluating the book  
7 of business of a company and saying, now wait a  
8 minute, this is prime risk, we're going to  
9 aggregate -- this is subprime risk, we're going to  
10 aggregate, these are prime risks, we're not going to  
11 aggregate?

12 That's nonsense. I mean, she created this  
13 theory for this case as far as I can see. I've never  
14 heard it before. I've never heard anything resembling  
15 it before.

16 And for her to apply it to Royal means  
17 you've got to apply it to all credit insurance, all  
18 credit risk insurance, and to mortgage guaranty  
19 insurance, to all phases of insurance that have any --  
20 are impacted at all by economic downturn.

21 Q. Is it your understanding that -- well,  
22 let's get back to your opinion.

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1 Pennsylvania?

2 I don't have her report here.

3 (Pause.)

4 BY MS. AINSLIE:

5 Q. Why don't we just go on.

6 A. Okay.

7 Q. It's not important.

8 Do you understand her to be proposing that  
9 all credit risk insurance involving student loans  
10 should always be aggregated or that this particular  
11 book of business should have been aggregated?

12 A. I don't think you can have the latter  
13 without the former.

14 I mean, she can't just pick on Royal and  
15 say, Royal is subject to this, and everybody else who  
16 does the same thing isn't doing it.

17 Q. That wasn't the question, Mr. Bernstein.

18 A. Well, I think it is.

19 I think that's -- you can't have one  
20 without the other. She's making a representation that  
21 economic downturn is a factor that makes -- that  
22 requires an insurance department to apply 909 the way